

USAID/Afghanistan

Annual Report

FY 2004

June 15, 2004

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Afghanistan

Performance:

Background: With the collapse of the Taliban regime in late 2001, Afghanistan is making the transition from its former status as a “failed” state to a still fragile, but functioning democracy and economically progressive country. A political transition is proceeding from rule under a fractured, hostile group of regional warlords to a national authority under a democratically-elected central government. In June 2002 a national assembly (Loya Jirga) convened to establish the Transitional Islamic State of Afghanistan (TISA), with a mandate to hold a Constitutional Loya Jirga (CLJ) within 18 months and national elections within 24 months. A new draft constitution was prepared by a Constitutional Commission using a broad-based consultative process. It will be reviewed and ratified by a Constitutional Loya Jirga in December 2003, as mandated. Technical, logistical and administrative support was provided by the donor community, including the USG through USAID. Elections are scheduled for 2004.

Under the leadership of President Hamid Karzai, the TISA has shown a commitment to making reforms necessary to improve the economy and raise the standard of living for Afghan citizens. A new currency, the Afghani, was officially established in January 2003, and it has remained stable by central bank monetary managers. Banking legislation formally established the Central Bank as an autonomous government institution and instituted the framework for a regulated commercial banking industry. Several new commercial banks have been licensed and are initiating a range of financial intermediation services.

A National Development Budget, reflecting national policies and development priorities was adopted in March 2003. It comprised an operational budget of \$550 million (\$200 million of which will be financed by self generated resources) and a \$1.7 billion dollar reconstruction budget, financed largely through international support. At the request of the TISA, donors established the Afghanistan Reconstruction Trust Fund (ARTF), managed by the World Bank, to coordinate development aid. While most donor support to the recurring budget is channeled through the ARTF (to which the USG has donated \$58 million of the total \$367 million raised), support for the reconstruction budget is provided through a variety of means, including bilateral aid, direct contributions by international organizations, and support from international financial institutions including the World Bank and the Asian Development Bank. The TISA's ability to finance its' recurring budget is expected to increase as improvements in revenue collection and financial management are consolidated and trade and investment in the country increase.

Over the last year, the government enacted elements of a revised commercial code, including customs and investment regulations. The government initiated efforts to support trade and investment, by reducing red tape for business licensing, and telecommunications investments. Afghanistan has two new commercial wireless telephone operators. Numerous transport infrastructure projects have been initiated, including work on Afghanistan's national ring road and important border connections with regional trading partners. Dialogue has been initiated on investments in, and development of, the country's utilities and natural resource sectors.

Afghanistan's political and economic development is limited by a number of factors. Insecurity and instability, due to Taliban and terrorist activities, warlords, drug-financed groups, and wide-spread lawlessness, threaten investment opportunities, reconstruction efforts and the ability of the government to implement social, economic and political development priorities. A significant portion of the population is classified as extremely poor, since agriculture, a mainstay of the Afghan economy, suffers from the collapse of traditional markets and services, mismanagement of land and water resources, and the legacy of a prolonged drought, which appears to have ended in 2003. The growth of farm and non-farm output and productivity is hampered by inadequate infrastructure and support services, and few linkages to markets. Afghanistan's social indicators are among the worst in the world, with a maternal mortality rate

of 1,700 per 100,000, and one in four infants dying before the first birthday. Life expectancy is estimated at 47 years (source: CIA, 2003), owing to food insecurity, the collapse of the public health system, and limited access to potable water. Literacy rates remain low - 51% for males and 21% for females over 15 years of age. Management and administrative capacity in both the public and private sectors is limited. Afghanistan also is vulnerable to natural and man-made disasters. It suffers from frequent deadly earthquakes, and has a significant number of internally displaced people as a result of internal conflicts.

U.S. Interests and Goals: Following the September 11, 2001 terrorist attacks, Afghanistan assumed center stage in the U.S. strategic interest. Following the removal of the Taliban regime, U.S. interests in Afghanistan focused on the development of an economically and politically stable nation that will never again become a harbor for terrorists. The new joint State Department-USAID Strategic Plan provides four objectives for U.S. foreign policy in Afghanistan, in order to support the goal of a "Stable and Democratic Afghanistan": (1) Afghanistan must establish internal and external security to ensure economic reconstruction, political stability, and stem the rise in opium production; (2) USAID must work to establish a stable, effective, and broadly representative central government; (3) Economic development must bolster this new government and reduce dependence on donors; and (4) USAID must help the people of Afghanistan meet their critical humanitarian needs while reconstruction proceeds.

These goals support and reinforce each other and are reflected in each of the strategic objectives (SOs) supported by USAID - SO 306-001 Reestablish Food Security; SO 306-002 Create Conditions for Stability; SO 306-003 Rehabilitate Afghanistan as a Nation-State.

USAID is helping to restore food security through a revitalization of food production and marketing systems and supporting both increased food security and alternatives to narcotics production (now a significant component of GDP and the most important export commodity). Also impacting stability, the poor public health situation is a central concern for USAID. The Mission's focus is on providing support to construction of health centers, health service expansion to rural areas, training, social marketing, public education, and capacity building components contributing to improved access to basic health care, especially for women and children. Education interventions include teacher training, textbook printing and distribution, remedial learning for those denied education under the Taliban regime (particularly girls), and school construction. USAID is supporting preparations for presidential elections in FY2004, and the Constitutional Loya Jirga that will ratify the current draft constitution. Rebuilding critical infrastructure, such as the Kabul-Kandahar highway, is a major priority in supporting the fledgling government and demonstrating tangible benefits of international assistance. Likewise, support to modernize revenue collection and financial management systems furthers the goal of a stable, functioning Afghanistan.

The process of nation building in Afghanistan requires serious and deep involvement in developing democratic institutions and mechanisms for citizens to access legitimately elected officials. The rule of law, an essential element of a democratic state, is absent in Afghanistan. Neither the public nor the private sector, including civil society institutions, can function properly without laws that guarantees fair and timely justice, protects investments and provides security. Simultaneously, a citizenry that cannot fairly elect its political leadership is disenfranchised and powerless, opening doors to terrorist and fundamentalist elements. Internationally recognized human rights precepts must also be in place, to guarantee people's safety, with mechanisms to act swiftly when and where abuses take place. A fractured Afghanistan, if left untended, provides a fertile breeding ground for terrorism and other destabilizing movements. To support the War on Terrorism and in keeping with America's tradition of assisting those in need, USAID has made a major commitment to help build a hopeful future for the people of Afghanistan.

The Constitutional Loya Jirga convened in Kabul on December 14, 2003, is both an unprecedented opportunity and test for the Afghan people and their leaders. The opportunity is to transition from rule of guns to the rule of law. Afghans must debate and resolve fundamental political issues they have not addressed through democratic processes in their long history. The draft constitution, prepared by the Constitutional Commission (with technical support from USAID) for consideration by the 500-member Loya Jirga, was prepared through an inclusive process. The president will have sufficient powers to be effective, though a bicameral legislature and independent judiciary will provide checks and balances. The

draft constitution provides stronger protections for civil and political rights than any political system in Afghan history. Afghans must make difficult choices in order to frame a sound constitution that helps realize their vision of a new Afghanistan, while the eyes of the world are watching. This debate touches on questions never before addressed in Afghanistan through a democratic process: what form of government to create, the balance of power between the center and the provinces, the relationship between religion and the state, the role of women, and issues of national identity, such as the content and language of the national anthem. Even at the Loya Jirga in 1964-which ratified a progressive constitution for its time - was done within the framework of an established monarchy. The job is not yet done. It will take several years and sustained commitment of significant amount of resources by the United States and the international community until the country can stand on its own feet.

The Department of Defense through its newly created Combined Forces Command South Asia (CFC-SA), the civil affairs program and the newly established Provincial Reconstruction Teams (PRT); the State Department, through the Bureau of Population, Refugees, and Migration (PRM), and the Bureau of International Narcotics & Law Enforcement (INL); and the United States Embassy Kabul country team are working hand in hand with USAID to provide the assistance to achieve these objectives.

The joint civil-military PRTs have emerged as an important support structure for USAID's efforts. PRTs around Afghanistan have established good working relationships with local officials, tribal leaders, military commanders and assistance organizations. As the eyes and ears of the Mission in the field, PRTs maintain the situational awareness necessary to appropriately target development programs. Moreover, as a physical platform, PRTs can accommodate field visits by USAID staff and implementing partners, through intelligence sharing, communications, and logistical support. Finally, PRTs are heavily involved in security sector reform. They are actively supporting ANA deployment, DDR, police training / mentoring and other activities which contribute to establishing a more enabling environment for reconstruction and development.

Donor Relations: The Afghanistan Reconstruction Trust Fund (ARTF), administered by the World Bank, establishes a consolidated funding mechanism to permit the Interim Administration of Afghanistan to fund projects and programs. The USG, through USAID, has contributed \$58million over the last 18 months, towards a total of approximately \$367million. Efforts at donor coordination in Afghanistan are frequent, but the real test is what gets delivered on the ground. The TISA maintains an inventory of donor-funded activities through the Afghan Assistance Coordination Agency, but this lists ongoing projects rather than outlining unmet needs. The TISA has published its National Development Framework as a strategic document guiding the country's rehabilitation. Each sector has developed a mechanism called the "consultative group", where each donor for that sector sits with the appropriate ministerial staff to devise policy. USAID staff will have to invest considerable management time to mobilize other donors to provide investments that will complement USAID's program.

Challenges: Under the Taliban, virtually all revenues collected were used for military actions against the Northern Alliance of rebel groups, allowing social and economic infrastructure to deteriorate. An ADB, UN and World Bank plan indicates the ten-year aid needs for rebuilding Afghanistan will cost fifteen billion US dollars. At the same time, Afghanistan faces great challenges in attempting to develop a resource base equal to the demands of the recurring national budget, not to mention reconstruction needs. Insurgent groups increasingly cause instability, particularly in the East and South of Afghanistan, slowing the progress of development and hindering the consolidation of national authority. USAID has currently programmed all its available resources and is waiting for the allowance of the FY 04 Supplemental and the passage of the FY04 appropriation in order to implement further planned initiatives.

Notwithstanding Afghanistan's bumper harvest of 2003, many Afghans remain inadequately nourished. Access to food will remain a major concern for a significant number of households with insufficient purchasing power for some time to come. The impact of prolonged drought in recent years, decades of conflict and the absence of a social safety net continue to pose a major challenge in ensuring household food security throughout the country, leaving many Afghans dependent on humanitarian assistance.

The World Food Programme's (WFP) Protracted Relief and Recovery Operation (PRRO) is designed to

address these needs. Regular review by Government officials, United Nations agencies as well as donors and non-governmental organizations provided targeted and effective use of food aid. The analysis of data collected through the National Risk and Vulnerability Assessment, launched in July under WFP's coordination will inform decision makers on the level of vulnerabilities and food security of rural populations countrywide.

In preparation for the winter months, many rural areas suffering lack of or limited access to markets and food stocks received pre-positioned or distributed food items. Eighty three urban bakeries in Mazar-e Sharif, Kabul, Kandahar and Jalalabad provide a safety net to some 27,000 vulnerable households. In return for signing a code of conduct renouncing the use of coercive force or arms, soldiers and officers choosing to re-enter civilian life received a one-time food package.

Key Achievements: FY 2003 was marked by significant achievements under each SO. The mission focused on targets that most impacted the strengthening of the Afghan government, and improved the quality of life for Afghans. Progress in FY03 set the stage for the implementation of major development programs in FY04 in the health, agriculture, economic governance, infrastructure, and education sectors.

1. **Kabul-Kandahar Highway paved:** USAID completed the first layer of asphalt paving for the 482 km Kabul-Kandahar highway (KKH). Land mines, rocket attacks by Taliban, the kidnapping of road engineers and other security incidents, plus a lack of available construction equipment complicated the highway completion. The KKH provides a visible sign to Afghans that the TISA is making progress, illustrating the benefits of cooperation with the international community. A large percentage (35%) of Afghanistan's population lives within 50km of the KKH, and will be able to use the highway to re-establish regional trade.

2. **Draft constitution supported:** After a process that included public consultations in all regions of the country, the Constitutional Commission presented a draft constitution to a Constitutional Loya Jirga for review and adoption. The official draft contains explicit recognition of Afghanistan's obligations under international treaties and law. USAID was instrumental in providing technical assistance to the Commission, supporting the consultative process and distributing over 110,000 copies of the draft Constitution to all regions of Afghanistan. At the time of writing, the Constitutional Loya Jirga is ongoing, and draft Constitution is being debated by 500 representatives of the Afghan people, who themselves were elected in a relatively open and democratic process. The logistical and administrative arrangements of the Constitutional Loya Jirga were USAID-supported.

3. **School enrollment increased:** The number of children enrolled in school in Afghanistan has increased dramatically over the last two years. While only an estimated 990,000 children were enrolled in 2001, prior to the September 11 attacks, UNICEF reports that 4.2 million children were enrolled as of September 2003. USAID support to the Back-to-School campaign provided 25 million textbooks for 2.9 million students in FY03, including 30% girls. In addition, USAID provided teacher training and food salary supplements, as well as curriculum development support for the Ministry of Education.

4. **Measles cases reduced:** Measles is one of the most deadly contagious diseases among vulnerable populations. After reaching levels of nearly 1,400 infections per month in 2001, the number of measles cases in Afghanistan was reduced to zero following the vaccination of 11 million children in 2002 and 2003. USAID funded 4.3 million of these vaccinations, contributing to a national coverage of greater than 90%. In addition, USAID funded \$1.5 million for the upgrade of cold chain improvements for the nationwide vaccination campaign.

5. **Wheat production increased:** In the 2002-2003 growing year, Afghanistan produced more than 4.3 million metric tons (MT) of wheat, nearly enough to meet the national demand of 4.8 million MT. Adequate rainfall and rehabilitated irrigation schemes, along with increased access to seeds and fertilizer, thanks largely to USAID support combined to provide farmers with the opportunity to produce wheat surpluses in many areas of Afghanistan. While some provinces remain food deficit areas, because of weak internal transport and distribution systems, rural infrastructure and market strengthening is a major

element of USAID's agricultural strategy. Through continued support, USAID estimates that wheat production will continue to improve along with market access, with the goal of Afghanistan as a net food exporter of high value crops in the coming years.

6. A new currency introduced: Through USAID support to a currency conversion exercise in FY2003, the TISA was able to replace the old, devalued Afghani with a new Afghani valued at 1,000 times the old currency. This was an important factor in bringing stability to the national currency and confidence in the economy, which is expected to grow by approximately 20% by the end of 2003. Prior to the currency conversion, there had been wild fluctuations in the exchange rate against the US dollar, as well as no central government control over the amount of money in circulation. Also, four different currencies were in use in different parts of the country - the old Afghani notes, the Jumbish issued by General Dostum's forces, the Pakistani Rupee and the Iranian Rial. Since the introduction of the new Afghani, the exchange rate has stabilized as the TISA has assumed control of the money supply.

USAID is committed to incorporating gender issues into development planning. The underlying philosophy is to mainstream implementation elements whenever possible. For example, in microfinance activities, both men and women credit specialists are being trained, and all loans are available to anyone who qualifies.

In those areas where Afghan culture requires segmentation or differentiation, such as primary schooling or maternity health care, adequate provisions are provided to ensure the training of female service providers. USAID efforts in both female teacher training and female medical attendants lead donor efforts and have been cited by TISA officials for providing a necessary foundation for establishing national health and education programs.

Gender specific issues are addressed at the policy level through inclusion of equal rights in the proposed constitution, equal rights in the proposed property rights and titling activity, and equal economic rights within the economic governance activities. Under RAMP activities, female extension agents are being trained, and in those cases where travel is required for longer training sessions, sufficient budget is provided for escorts to accompany participants.

Country Close and Graduation:

Results Framework

306-001 Reestablish Food Security

- 1** Increased On-Farm Productivity
- 2** Increased Access to Credit for Production
- 3** Increased Processing and Marketing Productivity

306-002 Create Conditions for Stability

306-003 Rehabilitate Afghanistan as a Nation-State

306-004 Program Support